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JAPAN AND SOUTH ASIA

Summary

Japan looks to all of Asia as a region of special interest. The real focal points, however, are Southeast Asia and East Asia, where Japan's foreign aid, trade and foreign direct investment presence are strong, in sharp contrast to South Asia, a region noted for poverty, natural disasters, political instability, military conflicts and border disputes. Nevertheless, for most of the eight countries of South Asia -- home to one-fifth of the world's population -- Japan ranks as a major trading partner and aid donor.

Overview

Conflicting development strategies have kept Japan and South Asia at arm's length. In the 1960s and 1970s Japan was seeking to bolster its economy through export-oriented trade -- importing raw materials and exporting manufactured goods. South Asia has few of these natural resources to sell. Also, regional poverty meant that neither industry nor consumers had the wherewithal to purchase from Japan substantial quantities of capital or manufactured goods. Furthermore, many of the South Asian nations were trying to develop their own manufacturing base through the implementation of import substitution policies and restrictions on foreign direct investment. These inward-looking policies and bureaucratic controls over the South Asian economies made strong interactions with other countries difficult.

As the economies of Japan and South Asia have developed over the past few decades, a growing number of opportunities for trade and investment

flourished in the 1980s. Some South Asian economic policies have achieved success, resulting in the development of a middle class with purchasing clout. Similarly, as Japan's economy has grown into one of the world's most powerful, Tokyo's aid programs have increased significantly, benefiting South Asia. Japan also has become cognizant of the importance of assisting countries in strategic locations, including Pakistan, which has been burdened by the flow of Afghan refugees fleeing the war.

Regional Interaction

The countries of South Asia organized themselves in December 1985 under the South Asian Association for Regional Cooperation. The organization's goal is to promote the self-reliance of its members and multilateral cooperation and collaboration in economic, technical, social and cultural areas. Current members include Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan's application for membership met rejection from all members other than India due to the presence of occupying Soviet military forces. However, in this report Afghanistan is considered part of South Asia in addition to the seven SAARC nations.

The SAARC regional organization was formed in part at the urging of Sri Lanka, whose earlier application for membership in the Association of Southeast Asian Nations had been rejected due to its geographic location. SAARC, designed in part to balance India's predominant position in the subcontinent, attempts to address truly multilateral issues and seeks to avoid involvement in bilateral issues, such as border disputes, water rights and ethnic turmoil. Rather, the organization hopes to address broad-based issues that can promote cooperation, such as rural development, transportation and communications.

Another common bond for much of South Asia is that most of the nations were under the rule or strong influence of the British prior to World War II. Five of the South Asian nations still are members of the British Commonwealth. India and Sri Lanka joined the Commonwealth shortly after the war, respectively in 1947 and 1948. Bangladesh joined in 1972, a year after it declared its independence from Pakistan. The Maldives, a former British protectorate, joined the Commonwealth in 1982, nearly two decades after gaining independence. And Pakistan rejoined the organization in 1989 after having dropped out in 1972 to protest Britain's recognition of Bangladesh.

All of the nations of South Asia, including Afghanistan, also belong to the Nonaligned Movement. The NAM group, which was formed in 1961 and has grown to 101 members, seeks to maintain the sovereignty of its member nations and to combat hegemony, imperialism and racism. The organization originally was concerned about the arms race between the United States and the Soviet Union. As more Third World nations joined, the group condemned imperialism and overseas military bases maintained in former colonies. The concerns of NAM shifted in the 1970s to economic issues that pitted the impoverished Third World against the rich industrialized nations. In conferences since 1983 NAM has focused on Third World debt relief, increased foreign aid and reduction of trade barriers. NAM has been critical of the two hegemons -- the Soviet Union and, much more

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sharply, the United States -- plus Israel's stance on the Palestinian issue and South Africa's apartheid policies.

One troublesome area in South Asia involves nuclear weapons, with both India and Pakistan reportedly having nuclear capabilities. (This is particularly serious since India and Pakistan have fought three wars since independence and both claim the entirety of the partitioned state of Kashmir.) Some of the smaller nations, by contrast, want to ban the presence of foreign nuclear weapons in the region. Over a decade ago Sri Lanka initiated a campaign to have the Indian Ocean declared a "Zone of Peace" -- a move that would prohibit foreign military forces, particularly those with nuclear weapons. Many Japanese may be sympathetic to such philosophies given Japan's World War II experience of being the only country to suffer from an atomic bomb attack. However, while Tokyo adheres to its nonnuclear principles -- no production, no possession and no introduction of nuclear weapons inside Japan -- politicians consider this a touchy subject as far as urging such policies on the South Asian region.

Another area of slight differentiation is in trade matters. In South Asia only Afghanistan, Bhutan and Nepal are not parties to the General Agreement on Tariffs and Trade. During the Uruguay Round of multilateral trade talks both the United States and Japan have pushed for stronger protection in developing countries of intellectual property -- patents, copyrights and trademarks. India and Brazil are considered to be among the chief culprits, whose weak laws lack sufficient intellectual property protection. India also has come under U.S. attack -- under the rubric of the Super 301 section of the Omnibus Trade and Competitiveness Act of 1988 -- for barriers to trade in services, particularly in the insurance industry, and for performance requirements of trade-related investment measures.

Although major powers -- including the Soviet Union and China -- play a role in the region, many conflicts are influenced by India, the strongest of the region's members. Indian forces have been sent to quell fighting by Tamil rebels in Sri Lanka and to help the government in the Maldives resist a coup attempt. But this type of arrangement can be tenuous as the other nations are concerned about Indian dominance in the region. Sri Lanka has had poor relations at times with India, for example, when Tamil rebels moved their headquarters offshore to the Tamil region of India, where many Indians were sympathetic to their cause.

Ensuring stability and promoting economic development are the highest political priorities for the region. In this regard Japan's regional role generally dovetails with U.S. political and security interests. While avoiding direct involvement in most political turmoil in South Asia, Tokyo implicitly has been supportive of many U.S. policies there through, for example, increased aid to Pakistan, which has been used in part to help Afghan refugees who have fled the war. Through its military presence the United States has helped to ensure the continued flow of oil from the Middle East through the Indian Ocean, partially benefiting Japan. Tokyo's contribution towards burdensharing is in the form of foreign aid. That is in keeping with Japan's interpretation of its constitution, which prohibits it from all military activities except maintaining self-defense forces.

Japan's special niche, as it is in other parts of Asia, seems to be as an economic partner and role model. Through economic development the Asian nations believe that they can best assure their sovereignty and increase their clout in multilateral organizations. South Asia, particularly India, is interested in gaining technology from Japan.

Trade - Japan ran a trade surplus of $1.4 billion in 1988 with South Asia (see Table 1). The largest surpluses occurred in trade with Pakistan ($573.6 million) and India ($277.2 million), although Japan ran surpluses with all South Asian countries (see Table 2). The surplus with India represented a continued decline from a 1986 high of $802.4 million, the largest in the region over the most recent five-year period.

Table 1: Japan's Trade by Selected Region, 1988

(in billions of dollars)

Region	Exports (f.o.b.)	Imports (c.i.f.)	Trade Balance
East Asia	$51.2	$32.9	$18.3
Southeast Asia	21.8	22.7	-0.9
South Asia	4.0	2.6	1.4
Middle East	8.4	19.4	-11.0

Source: Japan Tariff Association

Japan's biggest exports to South Asia mirror the product groups heading the list of the country's overall overseas shipments -- nonelectrical machinery, electrical machinery, vehicles and metals. Fish and crustaceans top the list of imports from South Asia, followed by coffee and tea, animal and vegetable oils, and raw hides and skins. South Asia, unlike Southeast Asia and the Middle East, is not a significant exporter of natural resources and is an oil importing region (see Table 3).

Foreign Investment - The investment climate in South Asia generally is not considered to be as favorable as in other Asian locations. Thus, Japanese foreign direct investment levels remain low. Cumulative investment by Japan in India as of March 1989 accounted for a mere 0.1 percent of the total and came to just $148 million (see Table 4). Japan's foreign direct investment in South Asia also was 0.1 percent, scarcely a blip compared with the $13.2 billion invested in East Asia (7.1 percent of the total), the $18.7 billion that has gone into Southeast Asia (10.1 percent) and the $3.3 billion (1.7 percent) funneled into the Middle East.

Political instability and lack of infrastructure are among the most commonly cited reasons for the low investment rates in South Asia. In India rigid regulations on foreign direct investment have proven to be deterrents.

Foreign Aid - Although Japan's trade relations with South Asia are not as strong as with other parts of Asia, Tokyo's official development assistance to South Asia is generous (see Tables 5 and 6). Three of Tokyo's top 10 aid recipients are in this region, and two others round out the top 15. Total aid

Table 2: Japan's Trade Balance With South Asia, 1984-88

(in millions of dollars)

Country	Year	Exports (f.o.b.)	Imports (c.i.f.)	Trade Balance
Afghanistan	1988	$112.6	$2.3	$110.3
	1987	140.6	2.7	137.9
	1986	117.1	1.0	116.1
	1985	97.6	2.1	95.5
	1984	111.9	1.0	110.9
Bangladesh	1988	283.5	84.8	198.7
	1987	357.1	73.5	313.6
	1986	445.2	82.7	362.5
	1985	331.1	84.4	246.7
	1984	243.5	78.3	165.2
Bhutan	1988	4.8	---	4.8
	1987	3.6	0.0	3.6
	1986	5.4	0.0	5.4
	1985	2.1	0.1	2.0
	1984	2.4	0.0	2.4
India	1988	2,081.6	1,804.4	277.2
	1987	1,957.3	1,530.1	427.2
	1986	2,099.4	1,297.0	802.4
	1985	1,596.4	1,188.6	407.8
	1984	1,167.8	1,132.4	35.4
Maldives	1988	10.8	2.3	8.5
	1987	13.0	1.3	11.7
	1986	7.1	1.3	5.8
	1985	12.0	3.5	8.5
	1984	10.3	0.7	9.6
Nepal	1988	61.8	2.3	59.5
	1987	79.3	2.6	76.7
	1986	65.4	1.6	63.8
	1985	61.0	1.1	59.9
	1984	39.4	0.5	38.9
Pakistan	1988	1,126.0	552.4	573.6
	1987	936.1	492.3	443.8
	1986	902.7	352.3	550.4
	1985	786.4	381.6	404.8
	1984	848.9	240.0	608.9
Sri Lanka	1988	286.3	113.4	172.9
	1987	251.2	91.0	160.2
	1986	288.7	89.3	199.4
	1985	270.7	78.6	192.1
	1984	254.1	79.7	174.4

Source: Japan Tariff Association

Table 3: Japan's Trade with South Asia by Top Commodities, 1988

(in millions of dollars)

Afghanistan	
Exports	
Rubber and Rubber Articles	$31.0
Manmade Filaments	22.1
Electric Machinery and Equipment	19.8
Imports	
Oilseeds and Oleaginous Fruits	0.9
Wool and Fine or Coarse Animal Hair	0.7
Mineral Fuels and Oils	0.2
Bangladesh	
Exports	
Metals and Fabricated Metal Products	110.8
Vehicles, Not Including Railway	39.6
Electric Machinery and Equipment	25.7
Imports	
Fish and Crustaceans	59.9
Other Vegetable Textile Fibers	13.8
Raw Hides and Skins	4.0
Bhutan	
Exports	
Vehicles, Not Including Railway	2.2
Nonelectric Machinery	1.7
Steel	0.5
Imports	
None	---
India	
Exports	
Nonelectric Machinery	505.1
Electric Machinery and Equipment	427.4
Metals and Fabricated Metal Products	234.2
Imports	
Natural or Cultured Pearls and Precious Stones	574.3
Iron and Nonferrous Ores	484.3
Fish and Crustaceans	274.9
Maldives	
Exports	
Electric Machinery and Equipment	3.9
Nonelectric Machinery	2.9
Ships and Boats	1.0
Imports	
Fish and Crustaceans	1.3
Coffee, Tea and Spices	0.7
Animal or Vegetable Fats and Oils	0.1
Nepal	
Exports	
Vehicles, Not Including Railway	11.6
Metals and Fabricated Metal Products	10.5
Nonelectric Machinery	7.1
Imports	
Unallocated	0.9
Animal or Vegetable Fats and Oils	0.7
Fabricated Metal Products	0.2
Pakistan	
Exports	
Nonelectric Machinery	351.8
Vehicles, Not Including Railway	304.8
Electric Machinery and Equipment	102.4
Imports	
Cotton and Cotton Fabrics	435.3
Raw Hides and Skins	18.1
Carpets and Floor Textiles	15.3
Sri Lanka	
Exports	
Vehicles, Not Including Railway	73.8
Nonelectric Machinery	46.6
Electric Machinery and Equipment	13.9
Imports	
Natural or Cultured Pearls and Precious Stones	43.6
Fish and Crustaceans	17.7
Coffee, Tea and Spices	13.9

Source: Japan Tariff Association

Table 4: Japan's Foreign Direct Investment by Country, FY 1951-FY 1988

(in millions of dollars)

Country	Cases	Total March 31, 1989	Share of Foreign Investment
East Asia			
Hong Kong	3,164	$6,167	3.3%
South Korea	1,712	3,248	1.7
China	567	2,036	1.1
Taiwan	2,133	1,791	1.0
Southeast Asia			
Indonesia	1,578	9,804	5.3
Singapore	2,239	3,812	2.0
Thailand	1,685	1,992	1.1
Malaysia	1,181	1,834	1.0
Philippines	705	1,120	0.6
Brunei	31	109	0.1
South Asia			
India	151	148	0.1
Middle East			
Saudi Arabia/Kuwait	4	1,383	0.7
Iran	108	1,005	0.5
United Arab Emirates	45	435	0.2
Saudi Arabia	101	369	0.2
Bahrain	22	105	0.1

Source: Ministry of Finance

amounted to $1.1 billion last year. However, Southeast Asia remained the favorite, getting $2.2 billion in total aid from Japan, including $1.6 billion in loans -- a figure far above the $661 million in lending that South Asia received. Unlike much of its foreign aid, Japan's assistance to South Asia in 1988 was split just about 60-40 between loans and grants. Other recipients had a far higher ratio of loans. And compared to Southeast Asia, which received far more technical cooperation aid, South Asia was given more outright grants.

In 1986, the year for which the most recent worldwide data are available, Japan was the top donor to Bangladesh, Bhutan, India, the Maldives, Nepal and Sri Lanka and was the second-largest donor to Pakistan behind the United States. Only Afghanistan among the eight South Asian nations did not qualify as a top recipient. (The United States was the top donor to Pakistan, the second-largest donor to Bangladesh and number three for the Maldives, Nepal and Sri Lanka.)

In 1988 Bangladesh received 3.7 percent of Japan's ODA, which ranked it fifth among recipients (see JEI Report No. 41A, October 27, 1989). Pakistan took sixth place with 3.3 percent. Sri Lanka received 2.2 percent of Japan's

Table 5: Japan's ODA by Selected Region, 1988

(in millions of dollars)

Region	Grants	Grants Technical Assistance	Loans	Total ODA
East Asia	$52.4	$182.7	$494.9	$729.9
Southeast Asia	260.7	342.6	1,593.3	2,196.6
South Asia	370.9	78.1	660.5	1,109.5
Other Asia	---	2.7	---	2.7
Middle East	60.5	48.5	218.1	327.0

Source: Ministry of Foreign Affairs

Table 6: Japan's ODA to South Asia, 1984-88

(in millions of dollars)

Country	1984	1985	1986	1987	1988
Afghanistan	$-0.3	$0.0	---	$-0.4	---
Bangladesh	123.3	121.5	$248.5	334.2	$342.0
Bhutan	1.9	1.6	5.3	4.2	6.8
India	21.6	21.9	226.7	303.9	179.5
Maldives	2.0	2.1	4.3	5.9	16.6
Nepal	28.5	50.7	68.1	76.8	62.4
Pakistan	67.0	93.3	151.6	126.7	302.2
Sri Lanka	63.8	83.7	126.9	118.3	199.8

Source: Ministry of Foreign Affairs

foreign aid monies for eighth place. India rounded out the top 10 getting 2.0 percent of Tokyo's foreign aid. The top 10 U.S. list for 1987 included Pakistan (5th), India (8th) and Bangladesh (9th). West Germany is also a strong donor to the region as the second-largest benefactor of Afghanistan, India, Nepal and Sri Lanka and third-largest to Pakistan.

Country-by-Country Review

Afghanistan - The war that took on international significance with a Soviet invasion in 1979 has torn apart this nation and kept it from maintaining normal relations with other countries. Despite the pullout of Soviet troops during 1988-89, fighting between the Soviet-influenced government in Kabul and mujaheddin rebel forces continues. The factious mujaheddin forces have been unable to score decisive victories in recent months. Yet only winter is expected to slow the fighting. Winter also is expected to hit the 2 million residents of Kabul hard as it did last year when food shortages were rife in the capital. Since the rebels control most of the countryside where food is grown they hope that by limiting food supplies they will weaken resistance. The urban areas have been relying on food shipments from the Soviet Union.

Afghanistan's imports from the USSR were $365 million in 1981 -- the most recent year of comparative data available from the United Nations. Imports from Afghanistan's second-largest supplier, Japan, were only $79 million that year. On the flip side, Japan bought from Afghanistan merely $593,000 worth of goods, ranking it as Afghanistan's number-11 buyer in 1981. The United States, which was Afghanistan's seventh largest importer as well as exporter, bought nearly $10 million worth of Afghan goods. The USSR, the top destination for Afghanistan's goods, bought $421 million. India ranked as its neighbor's third largest trade partner both in terms of imports and exports, U.N. figures show.[1]

Over the past five years the scale of Afghanistan's trade with Japan has remained relatively stable (see Table 2); so has the trade balance. In 1988 exports to Afghanistan of $112.6 million, including rubber and rubber articles, manmade filaments and electrical machinery, far outweighed the $2.3 million of imports comprised primarily of oilseeds, wool and mineral fuels.

This modest trade relationship has not extended to foreign aid in recent years. Tokyo, however, does support the United Nations High Commission on Refugees, which has aided Afghan refugees who have fled the war, primarily to Pakistan. Aid to Pakistan also has increased in recent years.

It is unlikely, given the continued turmoil in the country and the counterplay between the influences of the Soviet Union and the United States, that Japan would choose to become more directly involved in Afghanistan. Tokyo likely will lend support through less political, multilateral channels, such as the United Nations.

Bangladesh - Repeated years of horrendous flooding have destroyed much of the Bangladeshi infrastructure. In what was historically some of the world's worst floods, up to 75 percent of the country was under water in 1988. The severity of the flooding was heightened by deforestation in the Himalayan Mountains. Bangladesh has begun to consider the annual flooding as a regional problem and is looking to cooperate with other countries, such as Nepal and India, for ways to help control the problem. But poor relations with New Delhi may sideline proposals for building dams to control flooding along major rivers that flow between the two countries. Japanese technical and financial assistance could be a key to finding a remedy.

In 1987 Bangladesh bought more goods from Japan than from any other country, while Japan was its third most important shipping destination. Conversely, the United States was the largest purchaser of Bangladeshi exports but ranked third among sellers of imported goods to Bangladesh. Fish and crustaceans are one of the country's main exports. They accounted for more than 80 percent of the $85 million shipped to Japan in 1988 (see Tables 2 and 3). Last year, however, Bangladesh-bound exports dropped to $283.5 million from $357.1 million in 1987. Japan's exports to the country include metals, vehicles and electrical machinery.

Tokyo has increased its aid to Bangladesh significantly since 1986 when 33 percent of the funds Dhaka received in foreign aid came from Japan, the most

[1] 1987 International Trade Statistics Yearbook, Vol. 1 (New York: United Nations, 1989), p. 4.

of any contributor. The $342 million contributed by Japan in 1988 was $93.5 million greater than in 1986 and positioned Bangladesh to be Japan's fifth-largest aid recipient, obtaining 5.3 percent of all Japanese ODA funds. Its average over the 1984-88 period also put Bangladesh fifth, with $1.2 billion and 5.7 percent of the foreign aid disbursed. The country, besides being a top 10 foreign aid beneficiary of Japan, has equivalent status among members of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

Bhutan - Bhutan, a kingdom only slightly larger than Switzerland, began to establish some direct diplomatic relations in 1980 by recognizing its neighbor Bangladesh. Prior to that the British had guided its external affairs and given it economic assistance until 1949 when Bhutan allowed its foreign affairs to be conducted through India. In the mid-1980s Bhutan went on to establish diplomatic ties with several European nations. Official links with Japan were launched during the 1986-87 period. Bhutan still conducts many of its political affairs through India as well as through the United Nations.

Although Bhutan ranks as one of the poorest countries in the world, some analysts believe that, going by such other criteria as basic needs being met, Bhutan is better off than some of its neighbors.[2] Bhutan does not face the problems of overpopulation, skewed land distribution or underemployment. Average daily caloric intake levels are higher than those of its neighbors.

Japan was Bhutan's largest donor of foreign aid in 1986, providing $5.3 million or 38.4 percent of that country's total aid. Last year Bhutan received $6.8 million in assistance from Japan.

Japan's trade with Bhutan is minimal, the lowest of any country in the region. Imports are insignificant, while exports in 1988 of vehicles, machinery and fabricated steel products contributed to a $4.8 million trade surplus for Japan.

India - India's traditional links with British interests have been subsiding since the country became an independent member of the Commonwealth in 1947. In 1989 trade and foreign aid linkages with Japan and the United States are stronger than they are with Britain. Japan's exports to India have remained steady for the past three years and totaled $2.1 billion in 1988. Imports from India, however, have continued to edge upward, totaling $1.8 billion last year. The 1988 trade surplus of $277 million was a sharp decline from the previous year's $427 million. Bilateral trade surpluses have been quite erratic, ranging from a five-year low of $35 million in 1984 to a high in 1986 of $802 million. In 1981 the United States bought the most goods from India; Japan's purchases ranked fifth. Exports to India that year put the United States second, behind the Soviet Union, with Japan following closely in third place. Japan's top shipments last year consisted of nonelectric and electric machinery and metals. Japanese buyers favored pearls and precious stones, ores and fish and crustaceans from India.

India is the only country in South Asia with any significant Japanese direct investment. Cumulative investment through March 1989 totaled $148 million or 0.1 percent of Japan's overseas direct investment. Among Japanese

[2]Sukhdev Shah, "Developing Bhutan's Economy: Limited Options, Sensible Choices," Asian Survey, Vol. XXIX, No. 8, August 1989, p. 816.

firms with joint ventures in India are such electronics giants as Toshiba Corp., Hitachi, Ltd. and Mitsubishi Electric Corp. As a result of economic liberalization efforts under former Prime Minister Rajiv Gandhi in the mid-1980s economic growth accelerated and consumer demand increased greatly, particularly for color televisions. Japanese manufacturers of color television tubes in India expect sales to double in the next two years to more than 2 million per year. Another aspect of production in India that intrigues Japanese manufacturers is the possibility of increasing sales to the Soviet Union and Eastern Europe through India, which already has well-established trade ties with these regions. Low wages and a relatively well-educated workforce have not yet proven enough of an attraction to Japanese firms to entice them to produce in India for other export markets in the face of what they see as overregulation and bureaucratic inefficiency.

Japan's aid to India has seesawed, dropping in 1988 to $180 million from $304 million in 1987, although far higher than in 1984 and 1985 when transfers were $22 million each year. (The 1986 figure of $226.7 million provided a bridge to the larger outlays in 1987.) Nevertheless, India was ranked as Japan's seventh largest recipient of ODA for the 1984-88 period, receiving $754 million or 3.7 percent of Japan's total ODA. The 1988 sum made India Japan's ninth largest beneficiary with 2.8 percent of the total. In 1986 Japan was India's largest single donor, providing 22.3 percent of its foreign aid income. The previous year's top donor, the United Kingdom, contributed only 16 percent of India's funds in 1986.

Recent elections brought an end to the Nehru-Gandhi political era and brought Vishwanath Pratap Singh to power as prime minister. Mr. Singh was formerly finance minister during the period of economic liberalization at the beginning of Mr. Gandhi's term. Analysts are hopeful that Mr. Singh will be able to continue economic reforms and also resolve the bloody Punjab conflict between Sikhs and Hindus. While the U.S. Congress is quite concerned about the human rights violations reported in Punjab, Japan has assumed a hands-off approach to the internal Indian dilemma. The new prime minister is not expected to assume a dramatically different approach to foreign affairs.

Maldives - The Maldives gained independence in 1965 after having been a British protectorate and became a member of the Commonwealth in 1982. Fish and processed fish products account for 95 percent of its exports, which go primarily to Japan and Sri Lanka. In 1988 the Maldives shipped $1.3 million worth of fish and fish products to Japan. Other goods sold to Japan included coffee and tea and animal and vegetable oils. Major purchases from Japan included electric and nonelectric machinery and boats. Tourism counts as a major draw for foreign currency (the Maldives often is packaged as a honeymoon destination for young Japanese couples), but recent unrest in Sri Lanka by Tamil separatists, particularly bombings at the Colombo airport -- the gateway to the Maldives, has discouraged some tourists. A failed coup attempt in the Maldives last year also has tarnished its appeal.

Japanese aid to the Maldives took a significant jump from $5.9 million in 1987 to $16.6 million last year. More than $15 million of the funding was in the form of a grant. Although worldwide aid statistics for these years have not been compiled, Japan obviously is one of the top contributors to the Maldives. In 1986, when Japan gave the Maldives $4.3 million in ODA, that amount

was sufficient to earn Tokyo the top donor spot, contributing 38.1 percent of the Maldives' foreign assistance. The U.S. portion accounted for less than 9 percent that year.

Nepal - Nepal, like Bhutan, is among the world's dozen poorest countries. Its trade relationship with Japan has followed a Third World pattern of buying manufactured goods and shipping food or low-value products. In 1988 Nepal bought $61.8 million of goods from Japan, primarily vehicles, metals and machinery. Its $2.3 million in Japan-bound cargo consisted largely of animal or vegetable oils and metal products.

In 1988 Japan's ODA to Nepal reached $62.4 million, of which 90 percent was in the form of grants and technical assistance. The figures for 1986 show Japan as Nepal's top donor, giving $68.1 million or 40 percent of its total foreign aid. In comparison, the United States gave only 10 percent of Nepal's total outside assistance that year.

Pakistan - After the death of General Mohammad Zia ul-Haq in 1988, Benazir Bhutto and the Pakistan People's Party swept to power. Ms. Bhutto has ruled with the support of a coalition and overcame a major hurdle as she survived a no-confidence vote in the fall of 1989. A popular leader internationally, Ms. Bhutto faces difficulties at home as Pakistanis clamor for more rapid economic change. The military is still extremely powerful and consumes most of the national budget.

On the trade front Pakistan's interaction with Japan has continued to increase, but slowly, over the past five years. Japan's exports to Pakistan topped the $1 billion mark in 1988 for the first time, coming in at $1.1 billion. Imports from Pakistan, at $552 million, were roughly half the outbound cargo. Pakistan buys Japanese machinery and vehicles, while sending out cotton and cotton fabrics, raw hides and skins, and carpets.

Japan's foreign aid to Pakistan more than doubled in 1988, hitting $302 million, up from $127 million in 1987. The increase boosted Pakistan to the number-six position on Tokyo's list of recipients and accounted for 4.7 percent of total Japanese ODA funds. During the 1984-88 period the country received an average of 3.6 percent of Japan's foreign assistance, making it the eighth largest recipient with $740.8 million. The 1986 international comparison shows Tokyo as the second-largest single donor behind Washington. In 1986 the United States gave 31.8 percent of Pakistan's total aid while Japan's $152 million contribution accounted for 24.8 percent.

Sri Lanka - Despite its size and ethnic conflicts Sri Lanka has a higher level of foreign trade relative to its gross national product than other South Asian nations. Japan's 1988 exports of $286.3 million to Sri Lanka came close to its 1986 level, $288.7 million, after dipping in 1987 to $251.2 million. Sri Lanka's main purchases were vehicles and nonelectric and electric machinery. Natural resources figured as Sri Lanka's major exports to Japan, crowned by pearls and precious stones, then fish and crustaceans, coffee and tea.

Sri Lanka placed eighth among Japanese aid beneficiaries in 1988, receiving $199.8 million, and tenth overall for the 1984-88 period. The country received just over 3 percent of Japan's ODA in 1988 and averaged just under 3 percent for the five-year period in which aid totaled $593 million. As might be

expected Japan was Sri Lanka's single largest donor in 1986, contributing nearly 33 percent of all its overseas aid that year.

Conclusion

South Asia is likely to remain a region of secondary interest to Japan. Tokyo, however, is expected to continue to have a strong regional presence in terms of foreign aid. Japan may be able to take a lead in helping to develop infrastructure in some countries and to assist in finding solutions to flooding, deforestation and other natural disasters, which, until controlled, will limit the abilities of the populace in improving the region's economies significantly. Strong potential exists for foreign investment in the region, where labor costs are low. Problems of overregulation and political instability remain, however, and deter major investments. As these countries develop, trade ties could strengthen. The region would like to gain technology and manufacturing expertise from Japan. But in the near future Japan is likely to focus instead on importing raw materials from the Middle East and Southeast Asia and manufactured products from newly industrialized countries.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Japanese GNP Rebounds

Analysts widely agree that the Japanese economy is among the industrial world's strongest, but the latest gross national product figures looked impressive even by that standard. In the July-to-September period real GNP jumped an astonishing 12.2 percent on an annual basis (see Table). Analysts had to reach back 16 years to the period of Japan's most rapid economic growth, just prior to the first oil shock in 1973, to find a higher quarterly figure. The most recent performance seemed about as remarkable, if not as impossible, as a middle-aged track star equaling the best performances of his youth.

But, on closer inspection, the figures were less impressive. The numbers for the previous quarter had been dismal; inflation-adjusted GNP actually dropped 3 percent on an annual basis, a result attributed to the April 1 introduction of the new consumption tax. But the effect of the tax on the latest figures may even have been slightly positive. For example, the consumption tax resulted in a lower average tax on cars; car sales have continued to increase

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1987	FY 1988	October-December 1988	January-March 1989	April-June 1989	July-September 1989
Gross National Product	Y318,109.2 (5.4%)	Y334,968.8 (5.3%)	Y337,203.3 (4.7%)	Y343,155.4 (7.2%)	Y340,561.8 (-3.0%)	Y350,520.9 (12.2%)
Personal Consumption Spending	176,556.3 (4.5%)	185,317.8 (5.0%)	185,932.0 (3.0%)	188,458.9 (5.5%)	186,600.8 (-3.9%)	190,316.3 (8.2%)
Private Residential Construction	19,653.9 (25.7%)	20,686.8 (5.3%)	21,241.7 (12.1%)	21,341.2 (1.9%)	20,855.0 (-8.8%)	21,340.1 (9.6%)
Private Fixed Nonresidential Investment	61,897.9 (10.1%)	72,617.1 (17.3%)	73,117.5 (13.2%)	77,820.6 (28.3%)	78,320.0 (2.6%)	84,033.5 (32.5%)
Change in Business Inventories	1,618.0 (*)	2,080.6 (*)	2,362.2 (*)	1,080.4 (*)	2,463.2 (*)	1,815.1 (*)
Government Current Expenditures	28,697.2 (-0.6%)	29,341.5 (2.2%)	29,461.4 (3.3%)	29,647.9 (2.6%)	29,650.4 (0.0%)	29,727.0 (1.0%)
Government Fixed Investment	24,335.8 (9.4%)	24,621.6 (1.2%)	24,542.9 (0.6%)	24,674.3 (2.2%)	24,540.4 (-2.2%)	24,214.0 (-5.2%)
Change in Government Inventories	46.1 (*)	-185.0 (*)	-879.0 (*)	261.2 (*)	371.8 (*)	63.4 (*)
Net External Sector	5,304.1 (-33.7%)	488.4 (-90.8%)	1,424.7 (235.3%)	-129.0 (*)	-2,239.8 (*)	-988.5 (*)
Exports of Goods and Services and Factor Income Received	55,507.1 (5.4%)	61,457.7 (10.7%)	62,093.4 (4.0%)	66,337.7 (30.3%)	65,824.7 (-3.1%)	69,636.2 (25.3%)
Imports of Goods and Services and Factor Income Paid	50,203.0 (12.4%)	60,969.3 (21.4%)	60,668.7 (2.2%)	66,466.7 (44.1%)	68,064.5 (10.0%)	70,624.7 (15.9%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

while sales of goods and services adversely affected by the new tax have stabilized, at worst, at lower levels. The latest results, in which private consumer spending rose an annualized 8.2 percent after a 3.9 percent drop on a full-year basis in the April-June quarter, suggest that on balance the economy has shaken off the negative results of the consumption tax almost completely. The latest surge appears to restore the economy to its previous growth trajectory.

As in the past the single most impressive GNP component was private plant and equipment spending, which rose an annualized 32.5 percent, returning to earlier robust growth rates after eking out a modest gain in the second quarter. This category alone accounted for 1.7 percentage points of the 2.9 percent quarterly growth. With the latest increase capital spending came to 19.7 percent of nominal GNP, the highest figure since the early 1970s for Japan and substantially above the U.S. percentage. Such results will do little to quiet U.S. critics who fear a renewed export surge as the investments enhance the international competitiveness of the Japanese economy (see JEI Report No. 44B, November 17, 1989). Japanese government officials respond that the investments generally do not add to capacity and, when they do, are directed primarily at satisfying domestic demand.

In contrast to the previous two quarters the foreign sector increased the overall growth rate slightly in the July-September period. The contribution came to 0.4 percentage point compared to a negative 0.6 point in the previous quarter. The latest figure suggests that, once seasonal factors and price changes are taken into account, Japan's external imbalance grew during the quarter. Analysts explain that increases in Japan's income from foreign investments were the reason for the growth; if only exports and imports of goods and services had been considered, the contribution of the foreign sector would have continued in the negative column.

The remaining sectors were notable for their sluggishness despite the high overall rate of growth. Housing, inventory accumulation and public spending collectively shaved 0.3 percentage point off the quarterly growth rate. While inventories (and their growth rate) typically exhibit little sustained pattern and housing expenditures have shown a mixed pattern in recent quarters, the slow rates of growth in government spending in the third quarter on top of equally restrained expansion in previous periods is arguably of more significance. Public spending for investment, consumption and inventories has shown a slow but fairly consistent decline as a share of GNP in recent years, shrinking from 17.5 percent of total nominal GNP in fiscal 1984 to 15.9 percent in FY 1988 and to 15.6 percent in the July-September quarter. These figures in part reflect Tokyo's continuing -- and successful -- effort to rein in government spending.

Despite the temptation to draw a parallel with 1973 GNP growth rates -- which were accompanied by accelerating inflation -- Economic Planning Agency officials and other analysts expressed little concern that the latest quarterly figures indicate overheating of the Japanese economy. They noted that the growth rate from the third quarter of 1988 came to a real 5.1 percent, suggesting that the quarter-to-quarter bumps in the figures even out over longer periods of time. The expansion is expected to continue in the October-December period; that will make the government's official outlook for 4 percent growth in FY 1989 appear to be within easy reach. Many private analysts actually would add about 1 percentage point to that figure. In short, while the Japanese

economy may be incapable of the sustained sprints of its youth, it remains remarkably healthy in middle age.

Douglas Ostrom

Proposed FY 1990 Budget Up 9.7 Percent

Japan's general account budget for FY 1990 will reach Y66.3 trillion ($473.6 billion at Y140=$1.00), an increase of 9.7 percent over the initial budget for the year through March 31, 1990, according to a Ministry of Finance draft. This growth, fueled by a massive tax windfall due to the robust expansion of the economy, would be the largest since FY 1981 when the initial budget increased 9.9 percent. A 5.6 percent gain is penciled in for discretionary expenditures compared with a 3.3 percent rise during the current fiscal year and no growth between FY 1983 and FY 1987, while transfers to local governments tentatively are set to expand 15.2 percent. Equally important, the bigger budget will allow the government to redeem Y2.7 trillion ($19.3 billion) of the outstanding debt, which is expected to total Y161 trillion ($1.2 trillion) by the end of March 1990. The Ministry of Finance estimates, however, that if the initial requests from all government ministries and agencies were to be met, the expected Y66.3 trillion ($473.6 billion) in FY 1990 revenues would be short by Y0.7 trillion ($5 billion). Therefore, each ministry and agency is meeting with MOF to figure out spending priorities before the government's budget plan is submitted to the Diet, probably at the end of December.

The biggest revenue increase will come from the tax windfall expected if the economy grows at a projected 4 percent real rate in FY 1990. Analysts in the ruling Liberal Democratic Party and in the business community repeatedly have criticized the Finance Ministry for assuming too low a growth rate and, as a result, underestimating tax revenues. For the upcoming fiscal year MOF forecasters are projecting tax revenues at Y58 trillion ($414.3 billion), a hefty 13.7 percent increase over the initial FY 1989 budget (see Table).

In FY 1990 government bond issues will be limited to construction bonds used to finance public works, thus fulfilling the government's pledge to eliminate new issues of deficit-financing bonds by FY 1990. Reliance on construction bonds and a special scheme for promoting social infrastructure projects -- financed by the sale of government-held shares of Nippon Telegraph and Telephone Corp. -- will remain about the same as in the FY 1989 budget. The Finance Ministry contends that Japan's economic and social infrastructure is being upgraded according to plan and does not need to be increased by the amount urged by Washington (see JEI Report No. 44B, November 17, 1989).

Requests for discretionary spending in FY 1990 currently total Y36 trillion ($257.1 billion) compared with late summer requests of Y35.1 trillion ($250.8 billion) (see JEI Report No. 35B, September 15, 1989); the addition stems from proposed wage increases for public employees and other costs. Tough MOF negotiators are expected to trim the extraordinarily high 5.6 percent increase to keep total expenditures in line with total revenues. Although MOF and other ministries and agencies still are working out the details of the initial budget, defense spending and foreign aid funding are certain to go up by above-average percentages. This follows similar past responses to international requests and contrasts somewhat with Tokyo's policy of keeping expenditures for

FY 1990 Budget Plan

(in billions of yen)

	Initial FY 1989 Budget	Planned FY 1990 Budget	Change
Revenues			
Tax Revenues	Y51,010.0	Y58,000.0	13.7%
Other Revenues	993.2	1,200.0	20.8
Receipts from NTT Stock Sale	1,300.0	1,300.0	0.0
Public Bonds	7,101.0	5,800.0	-18.3
Construction	5,780.0	5,800.0	0.4
Deficit-Financing	1,331.0	0.0	-100.0
Total	60,414.2	66,300.0	9.7
Expenditures			
Discretionary Expenditures	34,080.5	36,000.0	5.6
Transfers to Local Governments	13,368.8	15,400.0	15.2
Social Infrastructure	1,300.0	1,300.0	0.0
Debt Service	11,664.9	14,300.0	22.6
Interest Payments	11,664.9	11,600.0	-0.6
Debt Consolidation Fund	0.0	2,700.0	---
Total	60,414.2	67,000.0	10.9

Source: Ministry of Finance

public works at FY 1989's level. MOF's view is that public spending should have a neutral impact on the economy; more fiscal stimulus, it believes, might kick off inflation.

The central government is required by law to transfer 32 percent of three national taxes to local governments. The projected amount in FY 1990 will be a record-high Y15.4 trillion ($110 billion), a benefit of the current economic boom.

Debt service, showing a 22.6 percent jump over the present budget, consists of two parts -- interest payments and money for the debt consolidation fund. For the past eight years the government has made no payments to the fund as it used all receipts to limit the need for deficit financing beyond the huge amounts it already was borrowing. To redeem the outstanding debt, the law requires the government each year to allocate general account funds equal to one-sixtieth (1.67 percent) of the total outstanding debt for the debt consolidation fund. By resuming payments Tokyo will be taking the second step toward getting its fiscal house in order since the fund helps decrease the towering debt outstanding and lessens the weight of annual interest payments.

The government will submit a FY 1989 supplementary budget of Y5.1 trillion ($36.4 billion) to the regular Diet session that starts in late December. According to this plan, Y800 billion ($5.7 billion) of this fiscal year's projected Y1.3 trillion-plus ($9.5 billion) worth of deficit-financing bonds will not be auctioned off since buoyant tax revenues have reduced the need for government borrowing. In addition, Y1 trillion ($7.1 billion) will be allocated to

the debt consolidation fund. Furthermore, Y1 trillion ($7.1 billion) will be deposited in the government's pension fund to make up for payments deferred between 1986 and 1988. The remainder of the supplementary budget will be earmarked for various expenditures, such as planned aid to Eastern Europe. The attention being paid to retiring the outstanding debt underscores the fact that Japan is trying to get its fiscal house in order to meet the fiscal demands of an older society in the next century.

Hideo Takahashi

Congress Adjourns, Leaves Back Burners On

Congress adjourned November 21 just in time for the Thanksgiving holiday, after pushing through a stripped-down, must-pass deficit reduction package. Capitol Hill was preoccupied by the budget this session. Trade remained on the back burner since Congress did not seem anxious to consider new trade bills so soon after finishing a major piece of legislation, the Omnibus Trade and Competitiveness Act of 1988. Wary that new trade bills might indicate a lack of confidence in the trade act and weaken the threats of action under the new law, representatives and senators merely monitored trade progress through hearings on the Super 301 section of the trade act, the Uruguay Round of multilateral trade talks and possible ramifications of the economic integration of the European Community in 1992. Instead of focusing on trade as the last Congress did, legislators this year turned to other themes, including the bolstering of U.S. competitiveness in business, technology and education.

Another recent popular theme on Capitol Hill -- foreign direct investment -- found its way into a number of measures of the final version of the deficit-reduction bill (see JEI Report No. 42B, November 3, 1989). Several proposals affecting foreign-owned companies were retained, while others were dropped. Among the provisions kept was a measure that would increase tax reporting requirements to the Internal Revenue Service for American companies controlled by foreign owners. This provision is designed to increase compliance with U.S. tax law, but critics charge that it will discourage foreign investment by overburdening foreign-affiliated firms.

Another foreign investment-related measure included in the deficit-reduction bill will change the tax treatment of intracompany loans for foreign subsidiaries. Loans now will be calculated at the market rate at which U.S. firms must borrow capital. This provision seeks to neutralize the possible advantages gained by foreign-affiliated subsidiaries that can borrow overseas from their parents at lower interest rates. In Japan, for example, interest rates on loans are lower than in the United States.

Among the investment-related measures that fell by the wayside was a House provision that would have taxed the gains from the sale of stock by nonresident investors who owned 10 percent or more of a company's shares. Another scrapped proposal would have changed the tax treatment of expenditures for research and development that occurred outside the United States (deferring deductible expenses over a five-year period); the goal here was to encourage more R&D in America. In the next session some of these provisions may be reintroduced, and measures already passed may be fine-tuned through technical corrections. The broader issue of foreign direct investment -- such as legislation

distance of 1,000 nautical miles to the south and east. Tokyo also is urged to buy more off-the-shelf military equipment and weapons systems from the United States.

- Host nation support - PL 101-189 requires the administration to negotiate with Japan to achieve Japanese security contributions equal to 100 percent of the direct costs of maintaining the U.S. forces that defend the country. (Tokyo currently provides about 40 percent of the $6 billion cost of maintaining U.S. forces in Japan.)

With Japan's defense spending currently hovering at 1 percent of GNP, its foreign aid expenditures at about 0.32 percent and the NATO combined figure averaging 3.7 percent, these provisions envision substantially reordered Japanese budget priorities in the next two years. Concerning the host nation support demands, in particular, Tokyo maintains that it would be forced to exceed the legal limitations of the 1960 Status of Forces Agreement. SOFA, which spells out the costs that the United States and Japan each should bear to support the American troop presence, provides that the United States "will bear for the duration of this agreement without cost to Japan all expenditures incident to the maintenance of the United States armed forces in Japan," except for certain specified exceptions.

Tokyo maintains that payments for utilities, road maintenance, ship repair and so forth -- costs that some American legislators believe Japan should bear -- would exceed these statutory limitations. Thus, if the United States wants Japan to bear these additional costs, SOFA would have to be amended, Japanese government officials have insisted (see JEI Report No. 38A, October 6, 1989). And, in light of the tough test that the ruling Liberal Democratic Party is about to face in the upcoming lower house elections, Tokyo would prefer not to broach this potentially controversial matter in the immediate future.

Reacting to the Senate's action, chief cabinet secretary Mayumi Moriyama said November 16 that the Kaifu administration will "act independently" from the new law, perhaps reminding Congress and the White House that they cannot dictate Japan's policies. However, she indicated that Tokyo is open to discussing with Washington the possibility of greater Japanese outlays to support U.S. forces in Japan. Japan Defense Agency Vice Minister Seiki Nishihiro concurred that bilateral talks on this subject are in order.

Barbara Wanner

White House Steel Program In Place

The Bush administration has wrapped up phase one of its plan to open steel markets both here and abroad. On December 12 U.S. Trade Representative Carla Hills announced that Washington had hammered out agreements with Japan, the 12-nation European Community and five other countries to end practices that distort world trade in steel. These pacts, the White House hopes, will be stepping stones to an international accord limiting government intervention in the steel sector. At the same time the chief U.S. trade negotiator confirmed the outlines of the arrangements worked out with Japan and the EC, this country's top foreign steel suppliers, and 15 second-tier exporters to restrain U.S.-bound steel shipments through March 1992.

The "historic" bilateral agreements to eliminate trade-distorting steel practices vary in detail but have the same thrust, administration officials say. The accords commit the governments of Japan, the 12 EC countries, South Korea, Brazil, Mexico, Australia and Trinidad and Tobago to stop subsidizing the production and sale of steel, whether for export or use at home. Exceptions to this broad restriction are limited to government support for environmental expenditures, research and development, worker retraining and plant closings. The signatories also agreed to improve foreign access to their steel markets by lowering and/or ending tariff and nontariff barriers.

Even allowing for the waivers they received for certain types of government support, EC countries and the three newly industrialized economies will have to make changes, some major, to live up to their commitments to end steel subsidies that skew international competition. Japan, in contrast, is home free. Although there has been periodic talk in U.S. steel industry circles about Japanese dumping, no one in recent years has accused Tokyo of subsidizing domestic steelmakers or providing financial assistance for exports. Moreover, the pledge to reduce and remove duties on foreign steel should not be hard for Japan to meet since Japanese mills now have little (3.9 percent or 4.6 percent at most) tariff protection from imports. The industry might drag its feet about duty-free trade in steel, but the fact remains that Japanese manufacturers no longer are competitive in the huge commodity end of the market.

What the nontariff barrier part of the agreement might mean for Japanese mills is harder to ascertain without knowledge of the still-confidential specifics of the pact. Neither the government nor the industry has a problem with the drive to end NTBs as normally defined by international economists because these government-erected obstacles to imports already have been eliminated. The main unknown is whether Tokyo agreed to stop trade practices that Washington early on in the negotiations cited as "discriminatory and restrictive," such as Ministry of International Trade and Industry administrative guidance to steel makers (see JEI Report No. 32B, August 18, 1989).

Where the Japanese steel industry could be pinched is on future shipments of high value-added products to the United States since it came up short on quota allocations for the October 1989-March 1992 period. The previously disclosed rollback in Japan's access to the American market (see JEI Report No. 41B, October 27, 1989) still troubles government and industry officials. While acknowledging that mills will have trouble shipping the overall allowable tonnage, they feel that Washington changed the ground rules for divvying up import shares after the fact. Tokyo is more than willing to work with the United States in the Uruguay Round of multilateral trade negotiations to achieve an international agreement that tackles the causes of distorted world trade in steel. That, according to the Bush administration, was supposed to be the trade-off for favorable quota consideration. Yet even with Tokyo's almost spotless record on trade-distorting steel practices, Japan, alone among the participants in the White House's steel restraint program, had its shipment ceiling lowered (see Table).

The cutback in Japan's quota is even greater than first reported because of differences between the product coverage of the current restraint program and the one in effect from October 1984 to September 1989. The old arrangement limited shipments of finished carbon steel mill products. Sales of semifinished

Import Share of U.S. Steel Market, October 1989-March 1992*

Country	Old Restraint Arrangements Adjusted	New Restraint Arrangements First Period	Second Period	Third Period
Australia**	0.26%	0.39%	0.49%	0.59%
Austria	0.24	0.25	0.25	0.25
Brazil**	1.35	1.80	2.10	2.10
Czechoslovakia	0.04	0.04	0.04	0.04
EC**	6.94	7.00	7.00	7.00
Finland	0.24	0.25	0.25	0.25
East Germany	0.11	0.10	0.10	0.10
Hungary	0.03	0.05	0.05	0.05
Japan**	6.19	5.00	5.30	5.30
South Korea**	1.92	2.45	2.62	2.62
Mexico**	0.49	0.95	1.10	1.10
PRC	0.08	0.08	0.09	0.09
Poland	0.09	0.13	0.13	0.13
Romania	0.11	0.11	0.11	0.11
Trinidad and Tobago**	0.04	0.12	0.13	0.15
Venezuela	0.21	0.33	0.33	0.33
Yugoslavia	0.02	0.05	0.05	0.05
Total	18.36	19.10	20.14	20.26

*Numbers are approximate because some arrangements were negotiated for two 15-month periods, and others were negotiated for other combinations totaling 30 months. Market shares are based on 1989 apparent consumption.
**Includes bonus awards.

Source: Office of the U.S. Trade Representative

steel were capped but on a volume basis, not as a share of expected U.S. demand, while exports of specialty steel by countries other than the EC and Brazil were restricted under a separate program that ran through September 1989. Adjusting Japan's previous market share for these product categories, which are included in the Bush administration's program, ups the figure from 5.8 percent to 6.19 percent. Now Japanese steel producers can supply only 5 percent of the the American market, although their access increases to 5.3 percent in January 1991.

U.S. trade negotiators say that the drop in Japan's market share simply reflects the fact that the world's biggest steel-exporting country was able to fill only 72 percent of its quota last year. Reallocating part of the unused portion to other suppliers, particularly low-cost Third World producers, should increase the total amount of foreign steel available to domestic users, they add. At the same time expanded import competition should help U.S. mills prepare for the post-March 1992 period, when the American steel market will be reopened.

Susan MacKnight